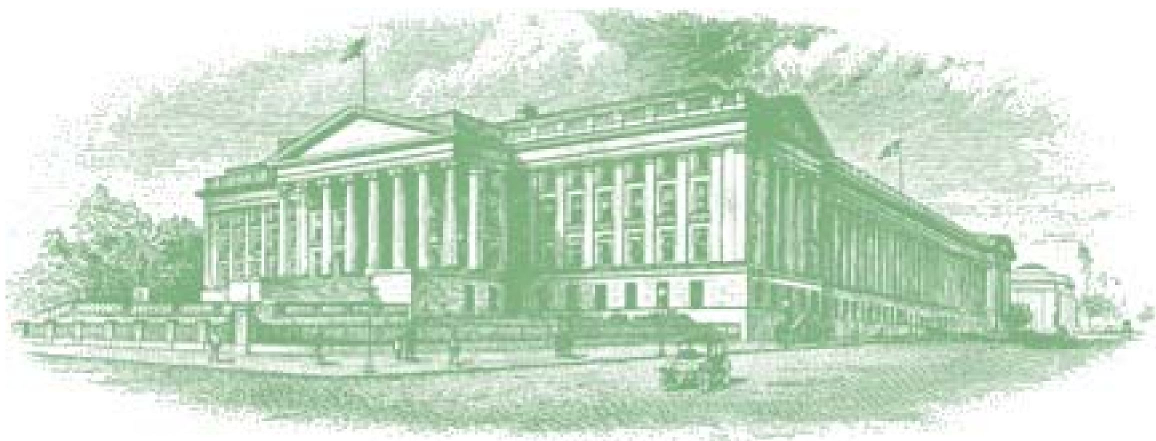
Audit Report



OIG-04-003

Audit of the Department of the Treasury's Fiscal Years 2003 and 2002 Financial Statements

November 14, 2003

Office of Inspector General

Department of the Treasury

Contents

DEPARTMENT OF THE TREASURY
WASHINGTON

INSPECTOR GENERAL

November 14, 2003

MEMORANDUM FOR SECRETARY SNOW

FROM: Jeffrey Rush, Jr.
Inspector General

SUBJECT: Report on the Department of the Treasury's Financial Statements for Fiscal Years 2003 and 2002

SUMMARY

The attached report presents the results of our audits of the Department of the Treasury's (the Department) financial statements as of and for the fiscal years (FY) ending September 30, 2003 and 2002. These audits are required by the Chief Financial Officers Act of 1990 (CFO Act), as expanded by the Government Management Reform Act of 1994 (GMRA). The Department's FY 2003 and 2002 financial statements, and our audit report thereon, are incorporated in the accompanying *Department of the Treasury Performance and Accountability Report for Fiscal Year 2003.*

We have issued unqualified opinions on the Department's FY 2003 and 2002 financial statements.

Our report discusses *2* material weaknesses and 1 other reportable condition in internal control identified during our audit. The material weaknesses relate to: 1) financial management and reporting at the Internal Revenue Service (IRS), and 2) electronic data processing controls, most notably at the IRS and the Financial Management Service. The other reportable condition relates to financial management improvements needed at the Alcohol and Tobacco Tax and Trade Bureau and the Office of International Affairs.

We reported that the Department's financial management systems are not in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The Department also determined, through its

self-assessment, that its financial management systems are not in substantial compliance with the requirements of FFMIA.

In accordance with applicable auditing standards, the Report of the Office of Inspector General is dated November 7, 2003, the last date of audit field work.

DISCUSSION

The Department has established itself as a leader in accelerated performance and accountability reporting. Last year's annual report was accelerated from more than 3 months to only 45 days after the close of the fiscal year end, 2 years in advance of the Office of Management and Budget's (OMB) requirement for accelerated annual reporting. This was cited by OMB as one of the most significant achievements in furthering the President's Management Agenda for Improved Financial Performance, and it has served as a catalyst to encourage other agencies to attempt to accelerate their annual reports ahead of the mandated requirements.

FY 2003 was a year of significant change and accompanying challenges for the Department, especially managing the divestiture of most of its law enforcement bureaus and activities to the Departments of Homeland Security and Justice. Despite these challenges the Department was able to sustain its accelerated schedule and submit its FY 2003 annual report on November 14, 2003.

The Department also made progress during the past year in addressing financial management deficiencies identified by financial statement audits, however longstanding deficiencies still persist. The material weaknesses at the IRS have, for the most part, existed since financial statement audits were initiated at the IRS in FY 1992. Similarly, computer security has been reported as a material weakness at the Department since consolidated financial statement audits were fully implemented in FY 1997. The real measure of financial management success is not only clean opinions on the annual financial statements, but the elimination of the material weaknesses that inhibit timely, accurate and reliable financial information throughout the year.

The Department's financial reporting initiatives have been noteworthy achievements. The monthly "3 Day Close" and accelerated annual reporting have greatly improved the quality as well as timeliness of financial information. However, in order for these improvements to translate into more meaningful operating benefits, financial reporting systems must be integrated with performance measurement and budgetary reporting systems. This will also require the development of good cost accounting to provide reliable information regarding the cost of the Department's programs and activities to enable cost benefit analysis of program performance.

Although steady progress has been made, achieving true financial management excellence continues to be a formidable challenge for the Department. Your personal support is essential for the Department to meet the financial management and other challenges laid out in the President's Management Agenda. We are strongly committed to working with you to achieve these objectives.

In accordance with the Department of the Treasury Directive No. 40-01, we request a corrective action plan be provided to us within 30 days of the date of this memorandum.

Should you or your staff have questions, you may contact me at (202) 622-1090 or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Financial Management and Information Technology Audits, at (202) 927-5430.

Attachments

cc: Teresa Mullett Ressel
Assistant Secretary for Management and Chief Financial Officer

SECTION I –

REPORT OF THE OFFICE OF INSPECTOR GENERAL

OIG

Report of the Office of Inspector General

The Department of the Treasury
Office of Inspector General

To the Secretary of the Treasury:

We audited the Department of the Treasury's (the Department) Consolidated Balance Sheets as of September 30, 2003 and 2002, the related Consolidated Statements of Net Cost, Changes in Net Position, and Financing, Statements of Custodial Activity, and Combined Statements of Budgetary Resources for the years then ended. These financial statements are incorporated in the accompanying *Department of the Treasury Performance and Accountability Report Fiscal Year 2003 (Performance and Accountability Report).*

Results in Brief

This report presents our unqualified opinion on these financial statements. Our audit disclosed the following material weaknesses in internal control:

- Financial Management and Reporting at the Internal Revenue Service (IRS) Needs Improvement (Repeat Condition).

- Electronic Data Processing (EDP) Controls Over Financial Systems Should be Strengthened (Repeat Condition).

We also identified one other reportable condition in internal control related to financial management infrastructure improvements needed at the Alcohol and Tobacco Tax and Trade Bureau (TTB) and the Department's Office of International Affairs (OIA).

Our audit disclosed the following reportable instances of noncompliance with laws and regulations, exclusive of the Federal Financial Management Improvement Act of 1996 (FFMIA):

- IRS did not always release Federal tax liens in accordance with Section 6325 of the Internal Revenue Code (IRC) (Repeat Condition).

- IRS' installment agreements are not in compliance with Section 6159 of the IRC (Repeat Condition).

In addition, the Department's financial management systems did not substantially comply with Federal Financial Management Systems Requirements (FFMSR), Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level as required under FFMIA (Repeat Condition).

Management's Responsibilities

Management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met, (3) ensuring that the Department's financial management systems substantially comply with FFMIA requirements, and (4) complying with applicable laws and regulations.

Scope of Audit

We conducted our audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01–02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin No. 01–02). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Our responsibility is to express an opinion on the financial statements based on our audits. We did not audit the financial statements of the IRS or the Bureau of the Public Debt's (BPD) Schedules of Federal Debt for fiscal years (FY) 2003 and 2002, the accounts for which are included in the Department's financial statements. The IRS' FY 2003 and 2002 financial statements included custodial revenues of $1.9 trillion and $2.0 trillion, total assets of $24.8 billion and $24.7 billion, and net costs of operations of $10.1 billion and $10.0 billion, respectively. BPD's FY 2003 and 2002 Schedules of Federal Debt included Federal debt and interest payable of $6.8 trillion and $6.2 trillion, and interest expense of $315 billion and $335 billion, respectively. These accounts were audited by another auditor whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included in IRS' financial statements and BPD's Schedules of Federal Debt for FY 2003 and 2002, is based solely on the reports of the other auditor. We believe that our audits and the reports of the other auditor provide a reasonable basis for our opinion and our conclusions on internal control and compliance with laws and regulations.

In planning and conducting our audit of the Department's financial statements, we considered its internal control over financial reporting by obtaining an understanding of the design of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

In addition, with respect to internal controls related to performance measures reported in Management's Discussion and Analysis (MD&A), the Annual Performance Report and the Full Report of Treasury's FY 2003 Performance Measures by Focus and Strategic Goal, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they had been placed in operation. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Department's compliance with: (1) certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; and (2) certain other laws and regulations, specified in OMB Bulletin No. 01-02, including the requirements referred to in FFMIA. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Department. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the following three general requirements: FFMSR, applicable Federal accounting standards, and the SGL at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a).

Results of Audit

Opinion on the Financial Statements

In our opinion, based on our audits and the reports of the other auditor, the Department's financial statements present fairly, in all material respects, its assets, liabilities, and net position as of September 30, 2003 and 2002, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary resources, and custodial activities for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 32 to the financial statements, certain adjustments to restate budgetary accounts related to debt interest, and seigniorage on newly minted coins, were made to the previously reported balances for the year ended September 30, 2002.

The MD&A and the Required Supplemental Information (RSI) included in Part III of the accompanying *Performance and Accountability Report*, are not required parts of the financial statements but are required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI. However, we did not audit the MD&A and RSI and express no opinion on them.

Our audits were conducted for the purpose of expressing an opinion on the Department's financial statements referred to above. Other information presented in the *Performance and Accountability Report* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we express no opinion on it.

Internal Control

Internal control is a process, effected by the Department's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition;

- Compliance with applicable laws and regulations - transactions are executed in accordance with: (1) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (2) any other laws and regulations, identified in OMB Bulletin No. 01-02; and

- Reliability of performance reporting - transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Because of limitations inherent in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As defined in OMB Bulletin No. 01-02, reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control that could adversely affect the Department's ability to meet the internal control objectives as defined above. Material weaknesses are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We identified the following matters involving the internal control and its operation that we consider to be material weaknesses and one other reportable condition as defined above. Material weaknesses that we identified in our report, *Audit of the Department of the Treasury's Fiscal Years 2002 and 2001 Financial Statements* (OIG-03-014, issued November 15, 2002) that continued to exist during FY 2003, are identified as "Repeat Condition".

Material Weaknesses

Financial Management and Reporting at the IRS Needs Improvement (Repeat Condition)

IRS continues to face many of the pervasive internal control weaknesses that have been reported each year since its financial statements were first subjected to audit in FY 1992. Despite these weaknesses, IRS was able to produce financial statements covering its tax custodial and administrative activities that are fairly stated in all material respects. However, many of IRS' longstanding systems and internal control weaknesses continued to exist, necessitating continued reliance on costly compensating processes, statistical projections, external contractors, substantial adjustments, and labor intensive efforts to prepare reliable financial statements. These costly efforts would not have been necessary if IRS' systems and controls had operated effectively.

IRS has made progress in improving its financial management, however, IRS personnel will continue to be challenged to sustain the level of effort needed to produce reliable financial statements timely until IRS successfully addresses the underlying systems and internal control weaknesses. Additionally, this process does not produce the reliable, useful, and timely financial and performance information IRS needs for decision making on an ongoing basis, nor can it fully address the underlying financial management and operational issues that adversely affect IRS' ability to effectively fulfill its responsibilities as the nation's tax collector.

The material weaknesses in internal control identified during the FY 2003 IRS audit, all of which are repeat conditions, are summarized as follows:

- Weaknesses in controls over the financial reporting process, resulting in IRS not (1) being able to prepare reliable financial statements without extensive compensating procedures and (2) having current and reliable ongoing information to support management decision making and to prepare cost-based performance measures;

- Weaknesses in controls over unpaid tax assessments, resulting in IRS' inability to properly manage unpaid assessments and leading to increased taxpayer burden;

- Weaknesses in controls over the identification and collection of tax revenues due the Federal government and over the issuance of tax refunds, resulting in lost revenue to the Federal government and potentially billions of dollars in improper payments; and

- Weaknesses in computer security controls, resulting in increased risk of unauthorized individuals being allowed to access, alter, or abuse proprietary IRS programs and electronic data and taxpayer information.

The material weaknesses in internal control noted above may adversely affect any decision by IRS' management that is based, in whole or in part, on information that is inaccurate because of these weaknesses. Also, unaudited financial information reported by IRS, including performance information, may also contain misstatements resulting from these weaknesses.

In addition, two other reportable conditions were identified related to deficiencies in controls over (1) hard-copy tax receipts and taxpayer data, and (2) property and equipment. In prior audits, the deficiency in controls over property and equipment was reported as a material weakness, but based upon improvements identified during the FY 2003 audit, this weakness was reassessed as a reportable condition.

Recommendations:

Recommendations to address the weaknesses discussed above have been provided to the IRS. We reaffirm our prior year recommendation that the Assistant Secretary for Management and Chief Financial Officer ensure that IRS develops and implements an appropriate corrective action plan that will fully address the material weaknesses and reportable conditions identified in the audit of its financial statements.

EDP Controls Over Financial Systems Should be Strengthened (Repeat Condition)

Material weaknesses in EDP controls were identified at IRS, and the Financial Management Service (FMS). In addition, other reportable conditions related to EDP controls were identified at TTB, and the Office of the Comptroller of the Currency (OCC). In the aggregate, these conditions, which involve both general and application computer controls, comprise a material weakness at the Department. The details of the bureau specific weaknesses and audit recommendations were, or will be, provided to respective bureau management separately.

During FY 2003, significant progress was made at the U.S. Mint (Mint). As a result, the material weakness in EDP controls at the Mint was resolved. This accomplishment, coupled with some progress at other bureaus and the divestiture of the United States Customs Service (Customs), has resulted in fewer weaknesses.

General Controls

General controls, which provide the structure, policies and procedures that apply to the Department's overall computer operations, need to be strengthened. General controls are grouped into six domains:

- entity-wide security program planning and management,
- access controls,
- application software development and change control,
- system software,
- service continuity, and
- segregation of duties.

In FY 2002, we reported weaknesses in all six domains. The progress cited above, as well as the divestiture of Customs, has reduced the number of domains for which we have identified weaknesses. Consequently, we are no longer reporting weaknesses in entity-wide security program planning and management, or segregation of duties. The remaining significant general control weaknesses are summarized below.

Access controls

Access controls are designed to limit or detect access to computer data, programs, equipment, and facilities to protect these resources from unauthorized modification, disclosure, loss, or impairment. A number of access control weaknesses were identified throughout the Department. These weaknesses included inconsistently implemented password controls, inconsistent examination of audit logs, active but not needed user accounts, users with greater access than needed, untimely cancellation of access for terminated employees, and improperly configured software. Such weaknesses diminish the reliability of computerized data and increase the risk of destruction or inappropriate disclosure of data.

Application software development and change control

Change controls prevent unauthorized modifications to existing computer programs from being implemented. Change control weaknesses found included informal processes to request changes, absence of special procedures for emergency changes, and absence of testing standards. These weaknesses increased the probability that unauthorized, inadequately tested, or harmful changes to computer programs could be implemented.

System software

System software is a set of powerful programs, which includes operating system software, designed to operate and control the processing of computer equipment. System software controls limit the access to these sensitive programs and related files. Weaknesses in the development and enforcement of policies and procedures over usage and changes to operating system software, utilities, and upgrades were found. These weaknesses increase the risk that unauthorized or inadequately tested changes to operating system software could be implemented.

Service continuity

Service continuity controls ensure that when unexpected events occur, critical operations continue without undue interruption and critical and sensitive data are protected. Weaknesses in this area included incomplete disaster recovery testing of key interfaces, and lack of adequate plans for continuity of a key application operated by an outside agency. If not corrected, these weaknesses could impair the timely restoration of critical systems if a disaster or other unexpected event were to occur.

Application Controls

Application controls are directly related to computer programs designed to perform specific functions, such as accounting. These controls help ensure that transactions are valid, properly authorized, and completely and accurately processed and reported. The limited application control testing performed identified the following weaknesses:

- Inadequate computer controls pertaining to a travel application contributed to duplicate payments of approximately $274,000.

- An accounting application was found to have inadequate procedures to ensure the integrity of its interfaces. As a result, some security issues pertaining to the application, its interfaces and data would not be readily apparent.

- Many users of a key application possessed incompatible duties; some possessed excessive access. Consequently, some users could prepare and certify their own data.

Recommendations:

Recommendations were, or will be, provided to bureau management to address these conditions. We reaffirm our prior year recommendation that the Chief Information Officer provide effective oversight to ensure that the specific recommendations detailed in the above referenced reports, and the related plans for corrective actions, are implemented completely and timely by the various bureaus.

<u>Reportable Condition</u>

Financial Management Infrastructure Improvements are Needed at TTB and OIA

During the performance of our audit, we identified the following financial management infrastructure weaknesses at TTB and OIA:

- TTB was established as a separate bureau under the Department of the Treasury by the Homeland Security Act. TTB management designed an organizational structure to provide oversight and control of its financial management processes, however, it has not obtained the necessary staffing to complete the designed organizational structure. TTB has not appointed a CFO and staff to monitor and control its financial management and reporting processes. To address this condition, TTB executed a Memorandum of Agreement (MOA) with the Department of Justice’s Bureau of Alcohol, Tobacco, Firearms, and Explosives to provide TTB with continuing financial management support services. However, performance under the MOA did not always result in adequate segregation of duties and effective oversight of TTB’s financial management processes. TTB is the government’s third largest revenue collector and needs to establish its own financial management capability.

- As part of our audit of the Department's financial statements, we audited certain accounts related to its International Assistance Programs (IAP), however, we did not issue a separate audit report on the IAP accounts. The IAP consists of international monetary programs, multilateral lending assistance, and certain loans by the United States to foreign countries managed by OIA. FMS performs limited accounting services for the IAP such as maintaining the general ledger and producing various financial reports. However, due to the magnitude and complexity of IAP's transactions and operations, effective financial management is needed to provide OIA, which is an economic policy-making office, expertise in: (1) establishing accounting policy, (2) making adequate accounting estimates, including valuation of assets, (3) implementing effective internal controls over financial reporting, and (4) preparing informative and required financial statement disclosures.

  As a result of the Departmental Offices reorganization in FY 2003, IAP's financial manager was transferred to another office leaving the financial manager position vacant. Subsequently, IAP's former financial manager was detailed back to IAP to provide financial management assistance to IAP concurrently with the performance of his new duties. However, our audit identified instances in which this arrangement did not provide for sufficient financial management supervision and review of IAP's operations.

Recommendation:

We recommend that the Assistant Secretary for Management and Chief Financial Officer oversee efforts to ensure effective financial management structures are established at TTB and IAP.

* * * * * *

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Compliance with Laws and Regulations

The results of our tests of compliance with laws and regulations, exclusive of FFMIA, disclosed the following instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards,* and OMB Bulletin No. 01-02:

- The IRC grants IRS the power to file a lien against the property of any taxpayer who neglects or refuses to pay all assessed Federal taxes. Under Section 6325 of the IRC, IRS is required to release a Federal tax lien within 30 days after the date the tax liability is satisfied or has become legally unenforceable or the Secretary of the Treasury has accepted a bond for the assessed tax. The FY 2003 audit identified instances in which the IRS did not release the applicable Federal tax lien within 30 days of the tax liability being either paid off or abated as required by the IRC. (Repeat Condition)

- Section 6159 of the IRC authorizes IRS to enter into installment agreements with taxpayers to fully satisfy the taxpayer's tax liability. During the FY 2003 audit, instances were identified in which the terms of installment agreements did not require full satisfaction of the tax liability. (Repeat Condition)

Except for the instances described above, the results of our tests of compliance disclosed no other instances of noncompliance with other laws and regulations, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests disclosed instances where the Department's financial management systems did not substantially comply with FFMIA section 803(a) requirements related to compliance with FFMSR, applicable Federal accounting standards and the SGL at the transaction level. (Repeat Condition)

Instances of noncompliance with FFMSR are summarized below:

- IRS' financial management systems do not provide timely and reliable information for financial reporting and preparation of financial statements. IRS had to depend extensively on labor intensive compensating procedures to generate reliable financial statements. IRS also lacks a subsidiary ledger for its unpaid assessments and lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents for material balances.

- The material weakness *EDP Controls Over Financial Systems Should be Strengthened* related to EDP controls at IRS and FMS, discussed above.

The instance of noncompliance with Federal accounting standards is summarized below:

- Material weaknesses at IRS related to controls over unpaid tax assessments and tax revenue and refunds.

The instance of noncompliance with the SGL at the transaction level is summarized below:

- IRS' general ledger system comprises two independent general ledgers that are not integrated with each other nor with their supporting records for material balances, and does not use the standard Federal accounting classification structure for custodial activities.

During FY 2003, the Department made progress in reducing instances of financial management systems non-compliance with FFMIA through actions to remediate material weaknesses at the Mint and FMS related to information system controls and controls over outstanding checks, respectively. Also, the divestiture of

Customs reduced the instances of non-compliance identified at the Department.

The Secretary of the Treasury also has determined in the Secretary's Letter of Assurance, in Part IV of the accompanying *Performance and Accountability Report,* that the Department cannot provide assurance that its financial management systems are in substantial compliance with FFMIA. The Department's remedial actions and related timeframes are also presented in Part IV.

FFMIA requires that if the head of an agency determines that its financial management systems do not substantially comply with FFMIA, a remediation plan must be developed, in consultation with OMB, that describes the resources, remedies, and intermediate target dates for achieving substantial compliance. FFMIA also requires OMB concurrence with any plan not expected to bring the agency's system into substantial compliance within three years after a determination of noncompliance is made.

IRS has established a remediation plan to address the conditions affecting its systems' ability to comply with the requirements of FFMIA. This plan outlines the actions to be taken to resolve these issues, designates resources to be devoted to implementing those actions, and specifies timeframes for their completion. Due to the long term nature of IRS' systems modernizations efforts, many of the planned timeframes exceed the three-year resolution period specified in FFMIA. The Department received a waiver from OMB for the requirement to bring IRS' financial management systems into substantial compliance within the three-year timeframe.

Recommendations:

We recommend that the Assistant Secretary for Management and Chief Financial Officer: (1) ensure that IRS implements appropriate controls so that Federal tax liens are released in accordance with Section 6325 of the IRC; (2) ensure that IRS addresses the noncompliance with Section 6159 of the IRC; and (3) continue to monitor and assess progress of bureaus in developing and implementing their remediation plans to address the identified instances of financial management systems noncompliance with the requirements of FFMIA, and in taking appropriate actions when key target dates are not met.

* * * * * *

We have reviewed our findings and recommendations with the Department's financial management and have incorporated their comments as appropriate. The response to our audit report from the Assistant Secretary for Management and Chief Financial Officer is included in Appendix 1 of this report.

This report is intended solely for the information and use of the management of the Department, OMB, the U.S. General Accounting Office, and the Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available as a matter of public record.

William H. Pugh

William H. Pugh
Deputy Assistant Inspector General for Financial Management
and Information Technology Audits
November 7, 2003

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 12, 2003

**MEMORANDUM FOR JEFFREY RUSH, JR.
INSPECTOR GENERAL**

FROM: Teresa Mullett Ressel
Assistant Secretary for Management
and Chief Financial Officer

SUBJECT: Management Response –Report of the Office of Inspector General on the Department of the Treasury's Fiscal Year (FY) 2003 Financial Statements

On behalf of Secretary Snow, I am responding to your audit report on the Department's FY 2003 financial statements included in Treasury's FY 2003 Performance and Accountability Report.

We appreciate your highly successful efforts to audit the Department's fiscal year 2003 financial statements and provide timely, objective advice on how to improve our financial reporting processes. Our offices continued to work diligently together to achieve significant results, culminating in the issuance of the FY 2002 and now the FY 2003 reports on a vastly accelerated basis, while at the same time maintaining an unqualified opinion on the financial statements. Further, our mutual success this year was accomplished despite the added complexities presented by the divestiture of four bureaus to the Departments of Justice and Homeland Security.

Issuing the Department's Performance and Accountability Report on November 14, 2003, while again achieving an unqualified audit opinion, is an extraordinary achievement. All of our bureaus and program offices are to be congratulated for repeating FY 2002's accomplishment. Without their tireless, dedicated efforts our accelerated reporting would not be possible. Likewise, it would not be possible without your office's consistently high level of professional assistance, enthusiasm, technical expertise, and commitment to doing whatever it takes to get the job done. The timely, high quality results speak for themselves.

As you note in your report, the Department did make progress in FY 2003 in addressing our financial management deficiencies. However, we agree that we must continue and increase our efforts to address longstanding weaknesses which hamper our ability to produce timely, reliable financial information. While we are proud to have achieved another unqualified audit opinion, we still have to employ labor intensive procedures in certain critical areas to compensate for our financial systems deficiencies. Until these deficiencies are corrected they will adversely affect our overall financial management capabilities and will be a burden on our employees who must deal with these deficiencies on a daily basis. We will continue to increase our emphasis on addressing these deficiencies. We will also continue our efforts to integrate budget and performance data, which we agree needs to be supported by good, timely cost data.

We concur with the two Departmental level material weaknesses, the reportable condition, and the instances of noncompliance with laws and regulations contained in your report. Corrective actions are underway to address each of these items, and we will provide your office with new or updated corrective action plans, as appropriate. We will strive to continue and improve our efforts to address the problems discussed in your report.

Over the past several years our offices, the Treasury Inspector General for Tax Administration, and the General Accounting Office have developed a professional, cooperative working relationship. I am confident that these effective relationships will continue to yield joint successes in improving Treasury's financial management practices.

CLICK HERE FOR A SECTION 508 COMPLIANT COPY OF ASSISTANT SECRETARY TERESA MULLETT RESSEL'S MANAGEMENT RESPONSE

Office of Management and Budget

Director, Office of Management and Budget

United States Senate

Chairman, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Ranking Member, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Chairman, Committee on Governmental Affairs
Ranking Member, Committee on Governmental Affairs

United States House of Representatives

Chairman, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Ranking Minority Member, Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations
Chairman, Committee on Government Reform
Ranking Minority Member, Committee on Government Reform

United States General Accounting Office

Comptroller General of the United States

SECTION II –

CLICK HERE FOR THE DEPARTMENT OF THE TREASURY'S PERFORMANCE AND ACCOUNTABILITY REPORT FOR FISCAL YEAR 2003